

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. NO.: 4015-01
BILL NO.: HB 1834
SUBJECT: Drugs and Controlled Substances; Revenue Department; Taxation and Revenue.
TYPE: Original
DATE: February 28, 2000

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
General Revenue	(\$10,995,597)	(\$17,318,065)	(\$18,183,968)
School District Trust	(\$3,665,199)	(\$5,772,688)	(\$6,061,323)
Conservation	(\$458,150)	(\$721,586)	(\$757,666)
Parks and Soil	(\$366,520)	(\$577,269)	(\$606,132)
Total Estimated Net Effect on <u>All</u> State Funds	(\$15,485,466)	(\$24,389,608)	(\$25,609,089)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2001	FY 2002	FY 2003
Local Government	(\$5,497,798)	(\$8,659,033)	(\$9,091,984)

FISCAL ANALYSIS

ASSUMPTION

Department of Revenue (DOR) officials state this proposal would eliminate the over-the-counter drug exemption for people with disabilities and exempts all sales of over-the-counter drugs. The DOR states they will incur notification expenses to businesses that may sell these types of items, and assume they could absorb these costs. The DOR defers the revenue impact to the Office of Administration, Budget and Planning.

Officials from the **Office of Administration, Budget and Planning (OA)** state according to the Bureau of Economic Analysis, overall spending in Missouri on non-prescription drugs for 1997-1999 was:

	Mo. Spending on Non-Prescription Drugs
1997	\$512.2 million
1998	\$544.7 million
1999	\$586.8 million

After converting the information to a fiscal year basis, the OA estimated the revenue loss to the state at \$17.8 million in FY 2001, \$28.0 million in FY 2002, and \$29.4 million in FY 2003. The BAP assumes a October 1, 2000 effective date and a growth rate of 5%. These amounts do not reflect the exemption already allowed to all over-the-counter drugs for disabled persons.

In a similar proposal from 1999, **Oversight** used a rule of thumb that Missouri's purchases represented 2% of the over-the-counter pharmaceutical purchases in the United States according to the Nonprescription Drug Manufacturers Association. Oversight now has information provided by the Office of Administration, Budget and Planning from the Bureau of Economic Analysis. Oversight assumes this information is more accurate and has used these estimates for purposes of this fiscal note. Oversight has shown the fiscal impact in two parts; loss in revenue from exempting sales tax on over-the-counter drugs to everyone and a gain in revenue from the sales tax exemption already in place for disabled individuals. Oversight, based on a prior fiscal note, assumes that the number of disabled individuals in Missouri is roughly 720,000. Oversight assumes their level of spending on over-the-counter medication is consistent with the rest of the population of Missouri.

ASSUMPTION (continued)

This proposal would result in a decrease in Total State Revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2001 (10 Mo.)	FY 2002	FY 2003
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GENERAL REVENUE FUND

Loss to General Revenue Fund

Sales tax exemption for Over-the-counter Pharmaceuticals	(\$12,663,000)	(\$19,944,225)	(\$20,941,436)
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Income to General Revenue Fund

Eliminate sales tax exemption for Over-the-counter Pharmaceuticals for disabled persons	<u>\$1,667,403</u>	<u>\$2,626,160</u>	<u>\$2,757,468</u>
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**NET EFFECT TO GENERAL
REVENUE FUND**

(\$10,995,597) (\$17,318,065) (\$18,183,968)

SCHOOL DISTRICT TRUST FUND

Loss to School District Trust Fund

Sales tax exemption for Over-the-counter Pharmaceuticals	(\$4,221,000)	(\$6,648,075)	(\$6,980,479)
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Income to School District Trust Fund

Eliminate sales tax exemption for Over-the-counter Pharmaceuticals for disabled persons	<u>\$555,801</u>	<u>\$875,387</u>	<u>\$919,156</u>
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**NET EFFECT TO SCHOOL
DISTRICT TRUST FUND**

(\$3,665,199) (\$5,772,688) (\$6,061,323)

CONSERVATION FUND

Loss to Conservation Fund

Sales tax exemption for Over-the-counter Pharmaceuticals	(\$527,625)	(\$831,009)	(\$872,560)
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FISCAL IMPACT - State Government
(continued)

FY 2001 FY 2002 FY 2003
(10 Mo.)

Income to Conservation Fund

Eliminate sales tax exemption for
Over-the-counter Pharmaceuticals
for disabled persons

\$69,475 \$109,423 \$114,894

**NET EFFECT TO
CONSERVATION FUND**

(\$458,150) (\$721,586) (\$757,666)

PARKS AND SOIL FUNDS

Loss to Parks and Soil Funds

Sales tax exemption for
Over-the-counter Pharmaceuticals

(\$422,100) (\$664,808) (\$698,048)

Income to Parks and Soil Fund

Eliminate sales tax exemption for
Over-the-counter Pharmaceuticals
for disabled persons

\$55,580 \$87,539 \$91,916

**NET EFFECT TO PARKS
AND SOIL FUND**

(\$366,520) (\$577,269) (\$606,132)

FISCAL IMPACT - Local Government

FY 2001 FY 2002 FY 2003
(10 Mo.)

Loss to Local Government

Sales tax exemption for
Over-the-counter Pharmaceuticals

(\$6,331,500) (\$9,972,113) (\$10,470,718)

Income to Local Governments

Eliminate sales tax exemption for
Over-the-counter Pharmaceuticals
for disabled persons

\$833,702 \$1,313,080 \$1,378,734

**ESTIMATED NET EFFECT ON
LOCAL GOVERNMENTS**

(\$5,497,798) (\$8,659,033) (\$9,091,984)

RAS:LR:OD:005 (9-94)

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FISCAL IMPACT - Small Business

Small businesses who sell nonprescription and over-the-counter drugs would be expected to be fiscally impacted to the extent that they would no longer collect and pay sales tax on these items.

DESCRIPTION

Under current law, over-the-counter or nonprescription drugs sold to individuals with disabilities are exempt from state and local sales and use tax. This bill extends the exemption to any individual.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Budget and Planning



Jeanne Jarrett, CPA
Director
February 28, 2000